

Service Date: March 22, 1988

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

\*\*\*\*\*

IN THE MATTER Of The Application	)	UTILITY DIVISION
Of MONTANA-DAKOTA UTILITIES, INC.	)	
For Authority To Implement The	)	DOCKET NOS. 88.2.4
Gas Cost Tracking Procedure To	)	87.7.33
Establish Decreased Rates For Gas	)	
Service.	)	INTERIM ORDER NO. 5280a
<hr/>		)

INTERIM RATE ORDER

FINDINGS OF FACT

1. On February 12, 1988, the Montana-Dakota Utilities Company (Company, Applicant, or MDU) filed with the Montana Public Service Commission (Commission) its application to implement the Gas Cost Tracking Procedure as set forth in MDU tariff sheet 88.

The filing was given Docket No. 88.2.4. The Company requested that rates become effective with service rendered on and after February 3, 1988. (Application, p. 6)

2. On March 24, 1987, MDU's wholesale gas supplier, Williston Basin Interstate Pipeline (WBIP), filed a Motion with the Federal Energy Regulatory Commission (FERC) requesting a one-month extension of time to file its regular semiannual purchased gas

adjustment (PGA). Such request was approved by the FERC on June 1, 1987. (Application, p. 2)

3. On April 30, 1987, WBIP filed for an additional sixty day extension stating that sufficient information was not yet available to allow it to make an accurate PGA filing. WBIP also offered an alternate proposal reflecting an adjustment to the PGA with a proposed effective date of June 1, 1987. WBIP's alternate proposal reflected an overall increase of 12.888 cents per dkt. (Application, p. 2)

4. In response to those WBIP filings, on May 1, 1987, MDU requested a waiver for filing its spring gas tracker with the Commission. MDU requested this waiver until the FERC authorized a change in MDU's wholesale gas supplier's rates. That waiver request was approved by the Commission on June 1, 1987. (Application, p. 2)

5. On June 1, 1987, the FERC denied WBIP's request for a sixty day extension and required WBIP to refile its PGA within 30 days. On July 1, 1987, WBIP refilled its PGA. (Application, p. 3)

6. On July 6, 1987, the Company filed with the Commission its biannual application to implement the Gas Cost Tracking Procedure as set forth in MDU tariff sheets 87 and 88. The filing was given the Docket No. 87.7.33, and its purpose was to reflect the rates filed by WBIP on July 1, 1987. In its application, the

Company stated that in the event that the proposed rate changes would not be approved on a final basis by July 15, 1987, the Applicant requested that the proposed rates be approved on an interim basis, subject to refund.

(Application, p. 3)

7. On July 29, 1987, the Commission issued Interim Order No. 5280 in Docket No. 87.7.33, which approved MDU's alternate tracking adjustment subject to FERC approval of WBIP's proposed tariffs. If Order No. 5280 would have ever gone into effect, the rates of residential and commercial customers would not have changed, and the rates for industrial customers would have decreased by 64.8 cents per Mcf. (Application, p. 3)

8. On September 28, 1987, the FERC issued its Order concerning WBIP's July 1, 1987, filing. The FERC rejected the proposed tariffs and directed WBIP to refile its PGA within 15 days to remove all inert gas costs completely from its purchased gas costs and to exclude from its rates the effect of nitrogen charges in its surcharge calculations. WBIP was directed to file tariffs to be effective September 28, 1987. (Application, p. 3)

9. On October 7, 1987, WBIP filed for an extension of time to file the compliance tariffs, and the motion was denied. On

October 13, 1987, WBIP filed tariffs in compliance with the FERC Order. (Application, p. 3)

10. On February 3, 1988, the FERC issued an Order approving WBIP's October 13, 1987, compliance rates that carried the effective date of June 1, 1987. These rates reflect a reduction to MDU of 28.589 cents per dkt. The FERC tariffs effective September 28, 1987, were not approved, pending the filing of supplemental information within 15 days. (Application, p. 3)

11. Based on the above information, MDU, in this filing has requested that the Commission allow the pass-through of the gas cost tracking adjustment change under the terms of MDU's Rate 88 and the waivers granted by the Commission on June 1, 1987, and in Interim Order No. 5280. (Application, p. 4)

12. The tracking procedure provides for adjusted rates on the basis of a Current Gas Cost Tracking Adjustment and an Unreflected Gas Cost Tracking Adjustment amortized over a projected six-month sales period.

13. The total tracking adjustment is \$0.355 per Mcf for residential and general service customers and a negative \$1.664 per Mcf for industrial customers. The net change from present rates is

a decrease of \$0.105 per Mcf for residential and general service customers and a decrease of \$1.440 per Mcf for industrial customers. This adjustment would amount to approximately \$429,680 during the proposed effective period. These proposed changes are calculated in the following table:

	<u>Residential and Commercial</u>	<u>Industrial Customers</u>
Current Gas Cost Adjustment	\$0.181	(\$0.637)
Unreflected Gas Cost Adjustment	<u>0.174</u>	( 1.027)
Total Tracking Adjustment	\$0.355	(\$1.664)
PSC Tax Effect at .225%	\$0.356	(\$1.669)
Less: Total Tracking Adjustment - Current (Including PSC Tax)	<u>0.461</u>	<u>(0.229)</u>
Net Increase (Decrease) in Current Rates	(\$0.105) =====	(\$1.440) =====

14. MDU is proposing an alternative calculation for industrial customers that would result in a decrease of \$0.410 per Mcf rather than the \$1.440 per Mcf decrease discussed above. The most significant portion of the industrial decrease is the \$1.027 negative unreflected gas cost adjustment. This large adjustment, according to MDU, is due mostly to the extremely low level of industrial sales currently experienced in the industrial category. The amount in the unreflected account is a negative \$83,781, as shown on pages 4 and 9 of Exhibit 4 of MDU's filing. These proposed changes are calculated in the following table:

	Residential and <u>Commercial</u>	Industrial Customers
Current Gas Cost Adjustment	\$0.181	(\$0.637)
Unreflected Gas Cost Adjustment	<u>0.174</u>	<u>(0.000)</u>
Total Tracking Adjustment	\$0.355	(\$0.637)
PSC Tax Effect at .225%	\$0.356	(\$0.639)
Less: Total Tracking Adjustment - Current (Including PSC Tax)	<u>0.461</u>	<u>(0.229)</u>
Net Increase (Decrease) in Current Rates	(\$0.105)	(\$0.410)
	=====	=====

15. MDU states that it is proposing the alternate calculation for industrial customers because application of the higher decrease would result in a commodity charge of about \$3.00 per Mcf which could cause the industrial customers to use significantly more gas than they otherwise would. The effect of this would be that MDU would then refund more than the proper amount during this tracker period resulting in an undercollection and a large increase for the next tracker period for industrial customers. MDU proposes to refund the approximate \$84,000 overcollection directly to those customers that contributed to the overcollection. Under the alternate proposal, there would be no unre-flected adjustment applicable to the industrial class since it would be applied as a separate item on a customer by customer basis to those four

customers that contributed to the overcollection. (Application, pp. 4-5)

16. Both approaches reflect the amortization of the remaining balance of the special twenty-four month amortization which was initially authorized in Docket No. 84.9.60 and extended by Docket No. 86.9.53. These calculations, when added to the normal Unreflected Gas Cost calculations represent the total Unreflected Gas Cost Adjustment rate for this tracker period. The Company proposes in this filing to discontinue the special amortization for future filings. (Application, p. 5)

17. Included in the Company's gas tracker filing is the effect of WBIP's elimination of nitrogen injection. MDU's interpretation of Order No. 5316 in MDU Docket No. 87.9.47 is that an order reflecting the cessation of nitrogen injection in MDU's rates would trigger the implementation of therm billing, which was the subject of Docket No. 87.9.47. Also, the Company, reportedly in order to minimize customer confusion and promote understanding, requests consideration of simultaneous implementation of this tracker filing and therm billing on a bills rendered basis either immediately or within one month. This proposal is apparently in consideration of Finding of Fact No. 24 in Order No. 5316 of Docket

No. 87.9.47, which stated that the effective date for the implementation of therm billing would be the date of approval, on either an interim or final basis, of MDU's gas tracker filing which reflects the reduced costs related to the cessation of nitrogen injection in the WBIP system. The Commission also found in that same Finding that therm billing would be effective on a bills rendered basis exactly one month after the Commission approves the related gas cost tracker filing. (Application, p. 6)

18. MDU also requested in this filing that the Commission grant any waivers of its rules, regulations, and orders, as well as the Company's filed tariffs or its Order No. 5280 in Docket No. 87.7.33, it deems necessary to allow timely implementation of the rate changes proposed in this filing. (Application, p. 6)

19. After much consideration, the Commission agrees with the industrial rate reduction proposed in the alternate approach and finds it to be proper in this Interim Order, subject to refund. The reason the Commission finds the alternate approach proper is because gas would otherwise be sold below cost. The Commission, however, finds that the aspect of the alternate proposal calling for MDU to refund the approximate \$84,000 to the four industrial customers that contributed to the overcollection is unacceptable in



this Interim proceeding. MDU must set aside that refund money, accruing interest at the Company's approved return on equity, until this matter is resolved in the Final Order of this proceeding.

20. MDU's filing in Docket No. 88.2.4 contemplates an effective date of February 3, 1988, for the proposed rate changes, but the Commission finds that proposed effective date to be unacceptable in this Interim Order given the current date. The Commission agrees with the Company that this order does indeed trigger therm billing to become effective, pursuant to Finding of Fact No. 24 in Order No. 5316 of Docket No. 87.9.47, and the Commission also agrees that the simultaneous implementation of this tracker filing and therm billing is in the interest of minimizing customer confusion. Therefore, the Commission finds that both the rate effects of this Interim Order and the implementation of therm billing will be effective for all bills rendered (meters read) on and after April 16, 1988. In approving this rate reduction on a bills rendered (meters read) basis, the Commission finds that all such bills rendered (meters read) one month hence must reflect the approved rate reductions as of March 16, 1988, which is the approval date of this Interim Order. The Company is directed to file related tariffs on or before March 28, 1988, in order to allow

the Commission adequate time to analyze those tariff filings before the implementation date of April 16, 1988.

21. The Commission finds MDU's application to be a complete filing and defers its decision until the Final Order in this proceeding concerning MDU's request for a blanket waiver of the Commission's rules, regulations, orders, or the Company's filed tariffs that the Commission deems necessary to allow a more timely implementation of the rate changes in this filing.

22. In Order No. 5238 of Docket Nos. 86.4.20 and 86.11.58, Finding of Fact No. 13, the Commission expressed an interest in addressing the issue of whether or not continuing the gas tracker procedure is in the best interests of the Company's Montana customers. The Commission, in that same Finding of Fact, asked MDU, the Montana Consumer Counsel (MCC), and any other interested parties to explore all the ramifications of totally eliminating tariff sheets 87 and 88. In Order No. 5238a of the same Dockets, Finding of Fact No. 14, the Commission stated that on January 23, 1987, the MCC filed with the Commission a request that the Commission postpone an inquiry into the propriety of tariff sheets 87 and 88 until the next gas tracker filing, and that on January 26, 1987, the Commission voted to grant MCC's request.

23. Based on the above history of the matter of whether or not to eliminate MDU's tariff sheets 87 and 88, the Commission believes that this current gas cost tracking docket is the proper proceeding to address this issue. The Commission, therefore, asks that the Company and any interested parties, especially MCC, address the proper future handling of MDU's gas cost tracking procedure as a viable method of ratemaking. Any such testimony should discuss the propriety of eliminating or modifying MDU's gas cost tracking mechanism and MDU tariff sheets 87 and 88.

24. In granting this interim approval, the Commission stresses that the calculations and methodologies approved in this Interim Order, including matters such as the distinction between FERC tariff schedules G-1 and I-1 shown in Exhibit 3 of MDU's filing, will be closely scrutinized and, depending on the record in this proceeding, may be modified or disallowed in the Final Order.

25. Concerning a hearing in this proceeding, the Commission will issue a Proposed Procedural Order, and, if no objections to that proposed procedural schedule are received, the Commission will approve the Proposed Procedural Order as final.

26. The criteria by which the Commission may determine an appropriate interim adjustment in a tracking procedure are found in

past Commission gas tracking orders and in the Commission's rules regarding interim relief.

27. Past Commission orders have established the following criteria to be met in the MDU tracking procedure:

- (a) Tracking increases are to be based on historic costs and volumes (Finding of Fact No. 6, Order No. 4476);
- (b) Interest is not to be imputed on the deferred gas cost balance (Finding of Fact No. 25, Order No. 4476a);
- (c) The appropriate gas mix on which to base a tracking procedure is that mix last approved within the confines of a general rate case; furthermore, that mix should apply to both the current and unreflected portions of a tracking procedure (Finding of Fact No. 5, Order No. 4742a); and
- (d) The Company should not annualize for new sources of gas not having an actual production history within the test year (Finding of Fact No. 6, Order No. 4742a).

28. The Commission's rules regarding interim relief are contemplated to provide relief on a "make-whole" basis and set forth the guidelines by which the Commission staff is to develop an

appropriate level of interim relief. Among other things, the guidelines provide for normalization and annualization of test year booked net income and test year average rate base, utilizing the rate of return authorized in the Commission's most recent decision regarding the subject utility.

29. A cursory examination of the Company's application and accompanying exhibits in this proceeding indicates that the criteria enumerated in Finding of Fact No. 24 have been met. Furthermore, the tracking adjustment represents nothing more than normalization and annualization of test year booked net income, and, hence, constitutes an adjustment contemplated in the Interim policy rules. Consequently, the Commission finds the Company's request for relief, as applied for under the alter nate proposal in this Docket and as implemented per the Commission's above discussion concerning the effective date of the Company's proposal, to be proper in this Interim proceeding.

30. However, the granting of this Interim should in no way be misinterpreted to mean that any issue in the case has been decided before all the evidence has been presented and heard during the course of these proceedings.

31. The Commission finds that approval of this Interim Order has the effect of merging Docket Nos. 87.7.33 and 88.2.4 so that Docket No. 87.7.33 is effectively made moot.

#### CONCLUSIONS OF LAW

1. Applicant, Montana-Dakota Utilities Company, is a corporation providing natural gas service within the State of Montana and, as such, is a "public utility" within the meaning of Section 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana rates and operations pursuant to MCA Section 69-3-102 and Title 69, Chapter 3, Part 3, MCA.

3. The Commission may, in its discretion, temporarily approve rate changes pending a hearing or final decision, pursuant to Title 69, Chapter 3, MCA.

4. The rate levels and spread approved herein are a reasonable means of providing Interim relief to MDU. The rebate provisions of Section 69-3-304, MCA, protect ratepayers in the event that any revenue increases authorized by this Order are found to be unjustified in the Final Order in this Docket.

#### ORDER

1. Applicant, Montana-Dakota Utilities Company, is hereby granted interim relief in the amount of 10.5 cents per Mcf reduction for all residential and commercial customers and a decrease of 41.0 cents per Mcf for industrial customers. The Company must comply with the industrial refund provisions discussed in Finding of Fact No. 19 in this Interim Order.

2. Such relief is to become effective for all bills rendered on and after April 16, 1988, and pursuant to the terms and conditions discussed in Finding of Fact No. 20 in this Interim Order.

3. Applicant must file its new rates in compliance with Finding of Fact No. 20 in this Interim Order.

4. All interest parties in this proceeding are asked to address the matter discussed in Finding of Fact Nos. 22 and 23.

5. Interim revenues granted herein are subject to rebate should the Final Order in this Docket determine that a lower revenue level is warranted. Such a rebate would include interest at the rate of the Applicant's last granted return on common equity.

6. Interim approval of any matters in this proceeding should not be viewed as final endorsement by the Commission of any issues, calculations, or methodologies approved in this Interim Order.

7. The Commission determines that this is a complete filing.

8. Docket Nos. 87.7.33 and 88.2.4 are merged, and Docket No. 87.7.33 is made moot by approval of this Interim Order.

DONE AND DATED this 16th day of March, 1988, by a 5 - 0 vote.



BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

---

CLYDE JARVIS, Chairman

---

JOHN B. DRISCOLL, Commissioner

---

HOWARD L. ELLIS, Commissioner

---

TOM MONAHAN, Commissioner

---

DANNY OBERG, Commissioner

ATTEST:

Ann Purcell  
Acting Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.